



**LOSS TRUST FUND BOARD
ONE CIVIC CENTER
FINANCIAL SERVICES CONFERENCE ROOM
7447 EAST INDIAN SCHOOL ROAD, SUITE 210
SCOTTSDALE, ARIZONA
MARCH 30, 2006**

REGULAR MEETING MINUTES

PRESENT: David Bresnahan, Chairman
Barbara Gatlin, Vice-Chair
Dean Coughenour, Board Member
Norm Cocanour, Board Member

ABSENT: Tom Hartley, Board Member

STAFF PRESENT: Craig Clifford, Financial Services General Manager
Pauline Hecker, Risk Management Director

1. CALL TO ORDER AND ROLL CALL

A regular meeting of the Scottsdale Loss Trust Fund board was called to order by Chairman Bresnahan at 8:02 a.m. A formal roll call confirmed the members present as stated above.

2. OLD BUSINESS

Approval of October 26, 2005 Minutes

Chairman Bresnahan commented concerning the ISO rating discussed during the October meeting. He mentioned that he was under the assumption the City would derive greater benefit by moving from a grade three city to a grade two city; he presumed that the difference in premiums would have gone a long way towards paying for the fire department. He was surprised to learn that there was little difference between a class two and a class three.

In response to an inquiry by Chairman Bresnahan, Board Member Coughenour stated that his experience had shown no more of a significant difference between a class two and a class one.

Chairman Bresnahan questioned the reason for having classifications, if not to provide a lower rate as an incentive for improvements.

BOARD MEMBER GATLIN MOVED TO APPROVE THE MINUTES OF THE OCTOBER 26, 2005 MEETING. SECONDED BY BOARD MEMBER COUGHENOUR, THE MOTION CARRIED UNANIMOUSLY WITH A VOTE OF FOUR (4) TO ZERO (0).

3. **NEW BUSINESS**

Introduction of two newly appointed Board Members

Chairman Bresnahan noted that introductions had been made prior to calling the meeting to order.

Review of the Board's Bylaws and Meeting Rules

Ms. Hecker distributed and reviewed the Scottsdale Revised Code. The Code indicated that the City Council would appoint five joint trustees; the trustees would be responsible for recommendations to the City Council regarding the administration of the Loss Trust Fund; the Board should meet at least once a year to submit a report; and each trustee should be bonded in a minimum amount of \$10,000.

Mr. Clifford noted that the Administrative staff requested that all of the Boards and Commissions review the provisions of the Code and make note of any needed updates. He mentioned that it was also requested that the Board bylaws be reviewed, noting that had been accomplished a year ago when the Loss Trust Fund Board created their bylaws, but that the subject could be revisited.

Chairman Bresnahan commented that the Loss Trust Fund Board was more of an ad hoc committee prior to development of their bylaws. Mr. Clifford remarked that the reason the structure was changed was to comply with the issues between the revised codes and state statutes. Mr. Clifford noted that one of the corrections had been to replace members who had exceeded the two-term limit. He clarified that the bylaws were created internally and changes could be made if necessary.

Ms. Hecker commented that she had a list of the dates that each Board Member's appointment would expire and inquired how long each Member had served on the Board. Chairman Bresnahan was serving his second or third year, Mr. Coughenour was appointed in the fall of 2005, Board Member Cocanour was recently appointed, and Vice-Chair Gatlin was a member since October of 2004. Mr. Clifford noted that this was a fresh Board. In response to an inquiry by Vice-Chair Gatlin about the procedure for reapplying for a position, Ms. Hecker explained another application would be submitted for review with City Council.

Mr. Clifford commented that many of the Boards and Commissions in the City were a mix of professionals and general citizens that may or may not have certain expertise. He noted that for the Loss Trust Fund Board, professional input and oversight is required and thanked the new members for applying for their positions.

Chairman Bresnahan remarked that the purpose of the Board was to look at losses.

Mr. Clifford noted that the Loss Trust Fund Board meets in the fall of every year to go over the Annual Risk Management Report for the prior year. He noted that they were at mid-year and that at the year end the actuarial assessments would be made on the benefits reserve as well as property liability reserve. Risk Management will assess the external financial report and put together a packet for Board review and discussion in the fall.

Chairman Bresnahan opined that the function of the Loss Trust is similar to that of an insurance company because of the City's self-insured status and self-insured retention limits. He noted that he would like the losses to be aged more and inquired which records were being relied upon.

Board Member Cocanour remarked that he was looking at the Risk Management Annual Report and he noted that he had some questions and that in order to look at the trust fund, the Board should look at the management practices. Mr. Clifford stated that each Department routinely reviews their operation and what the losses are, how the losses are developed, and what has been done to correct them. Mr. Clifford clarified that staff would walk the new Board Members through the entire book from top to bottom and go through all of the issues.

Chairman Bresnahan stated that he was not comfortable with his understanding of reviewing and auditing the losses. Ms. Hecker clarified that the excess carrier recently did an audit on the files and will submit a report, noting that the written report had not been submitted yet, but the verbal report was favorable.

Board Member Cocanour noted that the bylaws required that Board Members be familiar with the Open Meeting laws. Ms. Hecker noted that the City Attorney's Office would provide a copy of the open meeting laws as part of a presentation in May during orientation.

Mr. Clifford mentioned that the meeting notices were always posted and the meetings were open to the public even though typically there were no members of the public in attendance. Ms. Hecker noted that the postings were in several locations, including the City website.

Brief Update of Fund activities and budget process

Ms. Hecker noted that there had been two recent City Council actions for transfers from the fund into the operating budget in the last three months. The first transfer was for \$1.5 million to facilitate the settlements of the Highway 101 claims from previous years. Within the last month an additional million dollars was transferred to facilitate the payment of claims for the remainder of the year.

She noted that there were quite a few high profile, high loss claims the City wanted to settle, and the fund balance from the end of last year would reflect the lower balance.

Mr. Clifford stated that the budget planning process takes into account the claims and payments that are made throughout the year and the manager's proposed budget. The manager's proposed budget will be reviewed through public hearings and adopted in early June. The proposed budget incorporates revised internal risk grades which will be charged back to the operating departments; those rates internally are higher so the paid losses will be reflected in the next budget year. He noted that they also look at the overall fund and anticipate where the actuarial assessment may be in conjunction with the financial report. He mentioned that a recommendation was made for a transfer of another \$2.5 million from the general fund into the risk fund. The fund must be replenished for the claims paid. In addition, Mr. Clifford noted that because of the claims, the loss history will probably be reflected in a higher actuarial assessment next year. The risk portion is a constant concern.

Mr. Clifford explained that the financial department is trying to plan ahead and deal with potentially higher insurance costs and higher stop loss premiums. After the actuarial assessment is completed, adjustments for next year can be made.

Board Member Coughenour inquired how many claims are anticipated to be in excess of \$100,000. Ms. Hecker explained that there are two claims with that amount, although they are not anticipated to be paid before the end of the fiscal year. She noted that there has been an increase in the number of high reserve claims in the last year to year and a half. In response to an inquiry by Board Member Coughenour, Ms. Hecker stated that the specific type of claims referred to were roadway design and police action cases. Board Member Coughenour noted his interest in reviewing the data when it becomes available.

In response to Board Member Coughenour, Ms. Hecker also noted that the reserves have been fairly accurate.

Mr. Clifford mentioned that on the benefits side, they have maintained two plans with Aetna and Mayo. Three claims hit the stop loss within the Mayo plan and they are anticipating one more, this was taken into account when working to develop the accrued liability for those plans into the next year and beyond. The information was reflected in the proposed premium rate and plan design changes submitted to City Council.

In response to a question by Board Member Cocanour, Ms. Hecker noted that there is a \$2 million stop loss on liability. She noted that the \$2 million is per occurrence and there is no aggregate; there has been no penetration of the excess layers of insurance.

In response to a question by Vice-Chair Gatlin concerning whether rate increases would impact the entire City or focus toward a specific division, Ms. Hecker explained that the internal rates are usually generated by department based on a three-year history of claims. Because of the amounts paid out in the last year, there will be no weighting to the departments that have the history of losses, but

every department will share an increase in rates for the next year. Mr. Clifford explained that part of the weighting is based upon claims and part on payroll.

In response to Mr. Cocanour, Ms. Hecker explained that case reserve estimates are not included in the Cost of Risk Chart, the reserve numbers are contained within the department section of the Annual Report. Mr. Cocanour opined that the true cost of risk is not being shown because all of the numbers are not included and a small change will be seen as it moves forward; because it is the City and not an individual department it would show a trend.

Mr. Clifford explained that risk management reviews each department's claims and cost of risk and works on action plans to help improve things in the following year. Just as reserves and fund balances are not allocated back to specific departments, neither are risks. It remains to be seen whether that would be an appropriate allocation. He noted that the reserves are set for multiple years and the chart was looking at annualized assessments.

In response to a question by Chairman Bresnahan, Ms. Hecker confirmed that transferring of balances is a City Council issue. Mr. Clifford clarified that it would be an internal transfer within the fund, but would still be brought forward for a public hearing. Any payments over \$20,000 go to City Council for action. In the case of claims payments, the work is done to make a settlement and then brought back for the public meeting to acknowledge and pay the claim and disclose the information.

Mr. Clifford noted that if any of the Board Members had specific questions before the next meeting about process, Ms. Hecker would be glad to talk with them.

Mr. Cocanour complimented the follow-up to the action plans. Ms. Hecker explained that she and her safety manager meet with each department to go through all of the pages and answer questions and have the department directors sign off on the action plan and the goals. Mr. Clifford noted that there is a formalized goal setting process and the safety managers do onsite training throughout the year. A work comp review board also reviews all the work comp accidents once a month.

In response to a question by Board Member Cocanour, Ms. Hecker explained that VVP stands for the Voluntary Protection Plan, which is with OSHA; Scottsdale is one of the only cities in Arizona with that designation.

In response to Board Member Cocanour, Ms. Hecker explained that the Scottsdale University is an online program and all employees are registered. If a specific job requires an OSHA class or training Scottsdale University will deliver it to the employee so that no one gets lost in the process.

Mr. Clifford explained that the reserve is fine because it was over funded in earlier years. The question leans more towards whether the revenues are appropriate for the future expected costs and cost increases.

Mr. Clifford explained that the dilemma with the City Council is concerning health care; how much does the City pay versus how much the employee pays. Initially

it was recommended that more of the cost be shifted to the employees because Scottsdale has a fairly rich plan comparatively with some of the market and some employees wanted to do all rates levels. Virtually every company or any city or state government has to share the burden with their employees because of the rising cost of health insurance. The subject is going back to City Council with the original proposal along with a couple of options. Mr. Clifford stated that he would be explaining to City Council the financial consequences of the City sharing less of the premium.

Mr. Clifford expressed that he is concerned if Council makes concessions based upon the minority of employees complaining about the cost increases they will be ignoring the fact that similar price hikes are expected year after year and there will be less funds available for citizen services. He opined that there is a careful balance between providing excellent employee benefits and focusing on the overall financial picture. He noted that he would continue to try to focus City Council on not only the financial elements but also on the long-term elements. Mr. Clifford commented that he would support whatever decision City Council made.

4. **OPEN CALL TO THE PUBLIC**

None.

5. **ADJOURNMENT**

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 8:56 a.m.

Meets established criteria.



Pauline Hecker, Director
Risk Management